

CAZON

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THE CASE OF THE NIAGARA BASIC POWER USERS

The major points raised in the above case, together with some comments by the Council's Staff, are set out in the following pages for the convenience and further consideration of the Council.

(1) The Users' Brief - February 1962.

In this brief the Users state that they want

- (a) Reduced power rates and a curb on future increases.

This, they say, would result from

- (i) the maintenance of a 25 cycle Niagara district for which costs would be separately determined; and
- (ii) the consideration of transmission costs as a separate element of cost in constructing electric-power rates for industrial users.

They point out that they are the only users of 25 cycle power in Ontario, and that they are concentrated within twelve miles of the Niagara Falls Power Stations from which they draw most of their power. In addition, as 25 cycle power is being generated and transmitted by separate facilities, they say it must be possible to determine the separate costs of the 25 cycle Niagara District.

- (b) Contracts with rates fixed for periods of ten years instead of five years as proposed at present.
- (c) Inclusion of strikes in the 'force majeure' clause which waives the minimum bill provision of the contracts.
- (d) Establishment of a permanent tribunal which will hear appeals from the decisions of the Ontario Hydro Commission.

(2) Professor Currie's Report - May 1962.

Professor Currie had the following to say on the four points raised by the Users:

(a) Power Rates

He believes that the average-cost pricing practised by Ontario Hydro, apparently because, inflation aside, power supplies can be extended over time only at increasing cost, discriminates against old-established consumers and induces new users to purchase more than they otherwise would: "New users get lower rates than they would otherwise have to pay, because old users pay rather more than they would if the new users and the new sources of power had not appeared".

Professor Currie appears to prefer a differential pricing system which relates charges to the cost of supplying particular users; but, acknowledging the impracticability of doing this, he recommends regional pricing as a second best situation.

With regard to transmissions costs, Professor Currie believes that "industries should not be denied the advantage of their location nor should the difficulties of unfavourable location be neutralized by a policy of uniform rates". He does not think it practicable to vary rates precisely with distance but as already noted "that the zoning principle should be adopted on the grounds of both elementary justice and cost".

(b) Length of Contracts

Ontario Hydro's method of uniform pricing to some extent makes it less willing to grant long-term contracts to particular users. It is however,

prepared to negotiate five year contracts with the Niagara Basic Power Users and Professor Currie says that this is "about the best one can hope for in this uncertain world".

(c) Strike Waiver

As the Users did not raise this point with him, Professor Currie assumed that they had been satisfied by the answer given to them by Ontario Hydro in its letter of January 31st, 1961.

(d) Appeal Machinery

The proposal that a tribunal be established to review on request the rates set by Ontario Hydro received Professor Currie's support. He points out that there is no legal provision governing how rates to industrial users are to be determined. He also points out that Ontario Hydro does negotiate special contracts from time to time and that these contracts should receive periodic scrutiny by a special body.

(3) Ontario Hydro's Comments - October 1962.

(a) Power Rates

The view of Ontario Hydro might be expressed as follows: "The Niagara Basic Power Users are the beneficiaries of the economies which arise from" the linking of Hydro's facilities and its resultant ability "to construct optimum-sized plants", and because of this should accept the pooling of both transmission and generating costs. Ontario Hydro states, however, that "In costing both direct industrial loads and the municipal utilities high

*also benefit us
also economies*

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voltage transmission costs are pooled, the cost of low voltage lines (13.8 KV - 44.0 KV) are assessed on Kilowatt - miles, the mileage being the distance of the load from the nearest terminal station".

With regard to the zoning principle recommended by Professor Currie, I have been unable to find any comments in Ontario Hydro's Brief.

(b) Length of Contracts

"Since Ontario Hydro supplies power at cost, it" contends "that it is in the best interest of both the industrial customers and the Commission to have annual-rate-review provisions in power contracts so that rates can be closely tailored to the estimated cost of supply; however, the Niagara Basic Power Users have placed great emphasis on the need for fixed rates for a longer term than one year, and the Commission has agreed to a term of five years for these particular contracts."

(c) Strike Waivers

Ontario Hydro did not comment on this issue.

(d) Appeal Machinery

As the Power Commission Act makes Ontario Hydro the Rate Regulatory Board for the Province of Ontario and as it operates on a cost or non profit basis, Hydro states that there is no need for another regulatory body: "Any new regulatory authority would become involved in the intricate details of our power costing system, an activity which must involve substantial numbers of staff and associated cost. This would be not only

a duplication of the Commission's work, but to a larger measure, that of the auditors appointed by the Province to keep the Commission's accounts continuously under surveillance".

(4) The Users' Second Brief - January 1963.

The Users reiterate their earlier demands and in addition ask for a guaranteed continuance of the 25 cycle power service.

(a) Power Rates

They still believe that uniform charges discriminate against them and seek a 15% reduction in power rates.

(b) Length of Contracts

The Users want contracts for periods of ten years but are willing to accept adjustments in rates every five years based upon the formula of fluctuating labour and other costs.

(c) Strike Waiver

Their demand that this waiver be included in contracts is renewed.

(d) Appeal Machinery

The Users seek the establishment of an independent board to which industries and municipalities can appeal against decisions made by Ontario Hydro on charges and other matters.

(5) Staff Comments - February 1963.

(a) Power Rates

This is the most difficult point on which to give judgment. The information which has been presented is inadequate for a thorough evaluation of Hydro's pricing policy, and it appears, unless the Council wishes to research the problem in greater detail, that the best the Council can do is to recommend that Ontario Hydro follows certain principles when determining its charges. For instance, my own principle would be that Ontario Hydro's charges should, in so far as it is economic and practicable, reflect differences in cost, and to any one user or group of users be high enough to at least compensate Hydro for not transferring its power to any other user or group of users.

The acceptance of this principle as a simple guide line would entail Ontario Hydro giving separate consideration to assignable costs when determining its charges; and, for non-assignable costs, giving more serious consideration to the introduction of Professor Currie's proposal for averaging on a regional basis. A further implication of the principle is that power should not be set aside for any particular user or group at rates based on book or historical cost.

If the Economic Council also wished to consider the possible loss of industry resulting from non-competitive power charges and the need to foster industrial development, it could modify the principle outlined above by recommending that Ontario Hydro be allowed to negotiate preferential rates for large users of industrial power.

(b) Length of Contracts

It does seem that five year contracts are the longest that Ontario Hydro can safely give at the present time, and that these would become more acceptable to the Users if they received the guarantee that Ontario Hydro will give every consideration to their interests when contracts are renegotiated.

(c) Strike Waivers

No comments.

(d) Appeal Machinery

So long as the acts and decisions of the Commission are intra vires, I can see no sufficient reason why appeals against them to another body are necessary. If it is the case that the legislation governing the Commission is imprecise or undesirable, it should be altered, and briefs may be presented to the Government requesting that; but the Commission should not be hamstrung in its day to day administration of its affairs by continual appeals against its decisions.

If, however, the Commission has been delegated powers of legislation, such legislation together with any other ruling or agreement should be made available on request to at least a scrutinizing committee of the Ontario Legislature.

(e) 25 Cycle Power Service

Only the Commission can decide on the technical and economic desirability of maintaining the 25 cycle power service, but every consideration should be given to the present users of this service if the decision is made to convert it to the 60 cycle system. Such a conversion would as we have been told involve some industrial users in a tremendous expense, an expense which they should not and are not expected to bear in total themselves.

PERSONAL COMMENTS AND RECOMMENDATIONS

